

**Draft Proposed Modification to the District of Columbia
Consolidated Action, FY 2004 Action Plan
Dated February 23, 2004**

The Department of Housing and Community Development (DHCD) and the Office of the Deputy Mayor for Planning and Economic Development (DMPED) propose to modify the Fiscal Year 2004 Action Plan (“Action Plan”) of the Consolidated Plan for the District of Columbia (“Consolidated Plan”) by adding a Substantial Amendment to the Action Plan.

The purpose of the Substantial Amendment is to highlight to citizens the District’s plans to finance the redevelopment of the Skyland shopping center. The District plans to use a federal loan guarantee program, called Section 108, to achieve the lowest possible borrowing costs for Skyland.

All details about the proposed project, financing, benefits and risks are described in great detail in the District’s draft Skyland Section 108 application, available at dhcd.dc.gov. The Proposed Modification, Skyland 108 Loan Guarantee Application, and all supporting documents are also available at the locations described in the Citizen Participation Plan of the Consolidated Plan, under Substantial Amendments to the Consolidated Plan, on page 7. For questions or comments, please contact the appropriate District officials listed in the contact information section.

This Proposed Modification is organized as follows:

1. Legal Authority
2. Proposed Modification to the Consolidated Plan Action Plan
3. The Financing Vehicle: Section 108 Loan Guarantee
4. Citizen Participation Plan
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1. Legal Authority

The District, acting by and through DHCD, the designated District recipient of CDBG Funds for housing and community development activities, proposes a modification to the Action Plan and Consolidated Plan, as prescribed in D.C. Official Code § 6-1002 (2001 ed.); Reorganization Plan No. 3 for the District of Columbia, found at 21 DCR 2793, effective July 3, 1975; and Title 1 of the Housing and Community Development Act of 1974, as amended.

2. Proposed Modification to the Consolidated Plan Action Plan

The District plans to borrow up to \$27.965 million under the HUD Section 108 Loan Guarantee Program to provide interim financing for the redevelopment of a major retail shopping center known as Skyland. The redeveloped Skyland will be located in the Hillcrest neighborhood of Southeast Washington DC. The District plans to repay the Section 108 debt obligations using proceeds from the sale of the Government Printing Office (GPO) site under contract with the National Capital Revitalization Corporation (NCRC), an instrumentality of the District government:

The draft Proposed Modification of the Action Plan is to add the following text to the Action Plan, under DHCD Programs, Section 108 Loan Guarantee Program, on page 69:

“In FY 2004, the District Government will submit an Application to HUD requesting up to a \$27.965 million loan guarantee to provide financing for the redevelopment of a major retail shopping center, known as Skyland. The District intends to make a loan for up to \$24.9 million of the available Section 108 proceeds to the National Capital Revitalization Corporation (NCRC), an instrumentality of the District of Columbia, to acquire land, relocate current tenants, demolish existing buildings, and complete environmental remediation. Once NCRC has acquired lands, completed relocation and prepared the site, it will convey land to the proposed developer, consisting of the Rappaport Companies, Harrison-Malone Development, the Washington East Foundation, and Marshall Heights Community Development Organization. The District, if approved under the federal Community Development Block Grant (CDBG) regulations regarding the use of program income, intends to repay the Section 108 debt using NCRC proceeds from the sale of the Government Printing Office (GPO) site owned by a NCRC subsidiary, and if necessary from other sources provided by NCRC. If there are insufficient funds from the sale of the GPO site or from NCRC, the District has pledged its future CDBG funds for annual debt repayments over the 20-year loan period.”

3. The Financing Vehicle: Section 108 Loan Guarantee

The Section 108 Loan Guarantee Program enables cities and towns to lower their cost of long-term financing significantly by pledging future Community Development Block Grant (CDBG) allocations as security for the loan. The federal Department of Housing and Urban Development (HUD) administers the Section 108 program. Interest rates on Section 108 loans are low because HUD guarantees the repayment of the loans.

All jurisdictions that use the Section 108 Loan Guarantee Program are required to pledge their present and future CDBG funds as security.

There are several options available to the District to minimize the risk to the use of CDBG proceeds for the repayment of the Section 108 loan. The District intends to repay the Section 108 borrowing with the proceeds from the disposition of the Government Printing Office (GPO) parcel under contract to sell for \$28.7 million by 9/15/2004. If the land disposition proceeds from the GPO site are unavailable by 9/30/2007, then the District will need to find alternate means of paying the Section 108 debt service. NCRC has agreed with the District to liquidate

another parcel or financial instrument within its control to generate sufficient cash to repay the Section 108 borrowing before the District needs to start making permanent debt payments on the Section 108 borrowing. If NCRC fails to generate sufficient cash to pay the debt service on the Section 108 Loan Guarantee, the District may be forced to use CDBG funds to cover the shortfall in any year of the 20-year loan period.

The debt service reserve fund allows the District an additional safety net in the event that other repayment sources are initially unavailable. The capitalized interest allows the District to make interest payments as NCRC assembles the land and prepares the site for disposition to the developer. In addition, the contingency funds allow the District an additional cushion in case interest rates rise during the variable rate financing under the Section 108 loan guarantee program.

The District has carefully considered the ownership and financing options for the Skyland Project, and has determined that the proposed Section 108 investment will leverage significant private sector resources while providing the District with substantial benefits at a reasonable risk.

4. Citizen Participation Plan

DHCD and DMPED encourage and will facilitate citizen participation throughout the public input process. DHCD and DMPED will follow all other requirements of the District's Citizen Participation Plan under the Consolidated Plan. DHCD and DMPED staff will conduct two public hearings before submitting the Section 108 Loan Guarantee application to HUD. During the hearing process, DHCD and DMPED may amend the Proposed Modification or the Section 108 Application to reflect community input.

DHCD and DMPED are committed to providing access to all citizens who want to participate in the hearings. DHCD will notify more than 1500 individuals and organizations by mail of the Skyland project, its proposed financing and the draft Proposed Modification. Copies of the draft Proposed Modification, the Section 108 Loan Guarantee Application, and related exhibits will be available at area libraries, the Advisory Neighborhood Commissions, and at local community development corporations and community-based organizations. The full Citizen Participation Plan is available at dhcd.dc.gov in the Publications section.¹

After the second public hearing, the Mayor will transmit the Proposed Modification and an approval resolution to the Council. Once in the Council, this legislation will be referred to the Committee on Economic Development. The Committee will hold a public hearing and vote on the Substantial Amendment. The amendment to the Consolidated Plan becomes officially adopted if the Council enacts the approval resolution.

5. Compliance with Federal Requirements

¹ <http://dhcd.dc.gov/dhcd/frames.asp?doc=/dhcd/LIB/dhcd/info/pdf/CPAP043.pdf>.

The proposed use of Section 108 Loan Guarantee assistance by the District will comply with federal requirements. For a more detailed discussion, see the draft Skyland Section 108 Loan Guarantee application. There are three types of federal requirements:

1. The uses of Section 108 must comply with the District's Action Plan. The Action Plan states the District's intent to use Section 108 to finance large economic development projects. This Proposed Modification offers additional detail.
2. The uses of Section 108 must meet national objectives for the CDBG program. The use of the Section 108 for the proposed purposes will comply with national objective 24 CFR 570.200(a)(2). The use of proceeds will comply with this national objective by the application of 24 CFR 570.208 (1)(i) - Area benefit activities.
3. The uses of Section 108 must meet eligibility standards. The Skyland redevelopment is an eligible activity under 24 CFR 507.203(a) which includes the "the acquisition, construction, reconstruction, rehabilitation or installation of commercial or industrial buildings, structures, and other real property equipment and improvements, including railroad spurs or similar extensions. Such activities may be carried out by the recipient or public or private nonprofit subrecipients." NCRC will carry out the activities funded by the Section 108 assistance.

6. Contact Information

All inquiries will be routed to appropriate staff at DHCD and DMPED. For the purposes of this application, please direct your comments and questions to:

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